Swap invoices frequently cause confusion as they are billed separately from the loan.

Interest Rate Assumptions

LIBOR	2.00%
Loan Spread	2.00%
Floating Rate Today	4.00%

Swap Rate	2.50%
Loan Spread	2.00%
Fixed Rate	4.50%

Swap Invoices Explained – CPA's

Borrower Pays

Borrower pays on loan	4.00%
Borrower pays on swap	4.50%
Total	8.50%

Borrower Receives

Borrower receives on swap	4.00%
Total	4.00%

The borrower's effective fixed rate is therefore 8.50% - 4.00% = 4.50%. This matches the swap rate quoted above.

Now, let's assume LIBOR is at 6.00%.

Borrower Pays

Borrower pays on loan	8.00%
Borrower pays on swap	4.50%
Total	12.50%

Borrower Receives

Borrower receives on swap	8.00%
Total	8.00%

The borrower's effective fixed rate is therefore 12.50% - 8.00% = 4.50%. This matches the swap rate quoted above.

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Swap Invoices Explained – Borrowers

Loan Payment

Borrower pays	2.00% + 2.00% = 4.00%	

Swap Payment

Borrower pays	2.50% + 2.00% = 4.50%	
Borrower receives	2.00% + 2.00% = 4.00%	
	Borrower Net Pays	0.50%

Add the two invoices together to determine the effective interest rate.

The effective rate is therefore 4.00% + 0.50% = 4.50%. This matches the swap rate above.

Now, let's assume LIBOR is at 6.00%.

Loan Payment

Borrower pays	6.00% + 2.00% = 8.00%	

Swap Payment

Borrower pays	2.50% + 2.00% = 4.50%	
Borrower receives	6.00% + 2.00% = 8.00%	
	Borrower Net Receives	3.50%

The effective rate is 8.00% - 3.50% = 4.50%

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Sample Payment Invoices with Principal – Mechanics

Assume a $25mm loan with monthly principal of $33,000 in a month with 30 days.

Interest Rate Assumptions
Floating Rate 4.00%
Floating interest payment will be $25,000,000 * 4.00% * 30/360 = $83,333.33.

Swap rate locked was 4.50%
Fixed interest payment will be $25,000,000 * 4.50% * 30/360 = $93,750.

Principal of $33,000 per the Note.

With a traditional fixed rate loan of 4.50%, the monthly P&I payment should be $126,671.33 as follows:

Principal	$ 32,921.33
Interest	$ 93,750.00
Total	$126,671.33

How the actual mechanics will work:

Loan Invoice

Principal	$ 32,921.33
Interest	$ 83,333.33
Borrower Pays	$116,254.66

Swap Invoice

Borrower pays	$ 93,750.00
Borrower receives	$ 83,333.33
Borrower Net Pays	$ 10,416.67

Add the two invoices together to determine the total payment.

The total payment is $116,254.66 + $10,416.67 = $126,671.33. This matches the payment from above in the traditional fixed rate loan scenario.